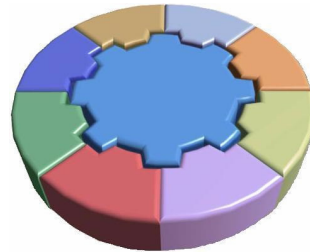


The 2008 Logistics Survey

Overall assessment of effectiveness on using logistics services and its trends in Vietnam



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Introduction

SCM Consulting and Research Services conducted the 2008 Logistics Survey in March 2008. This survey identified current demand of using logistics services and capabilities of logistics service providers and captured significant trend of outsourcing logistics activities in Vietnam.

The survey was conducted in form of e-mail communication and self-administered interview. The questionnaire was designed to solicit and capture information regarding to outsourcing activities, logistics service providers selection, logistics-related IT. The survey provided insight into demand of logistics service in Vietnam.

Respondents profile

The survey was distributed to logistics executive contacts of 300 companies among Top 500 Vietnamese largest companies, with the majority of respondents holding the title of Manager or Director of Logistics or Supply Chain Management. A wide range of companies participated, predominantly in the consumer packaged goods sector. A total of 60 companies (20%) responded to the survey this year. Companies from various sectors responding to the survey ranged in size from VND 5 billion to over VND 100 billion in annual revenues (see Exhibit 1).

Exhibit 1. Respondents profile

1. Annual Revenues

More than VND 100 billion	86%
VND 10.1 – 50 billion	5%
VND 5 – 10 billion	9%

2. Category Pattern

Foreign Invested Sector	63%
Private/Joint Stock Sector	21%
State Owned Sector	16%

3. Category Participation

Consumer packaged goods	32%
Distribution/Retail	20%
Consumer Electronics	14%
Seafood	14%
Automotive	11%
Wood Processing	9%

Acknowledgement

SCM Corp. wishes to send special thanks to the companies who spent time to complete the extensive survey. We look forward to your continuous support in upcoming surveys.

We would also like to thank members of the SCM Consulting and Research Services who were involved in designing the survey, reviewing the results and preparing the final report.

Executive summary

Information gathered from the survey participants provided important insights into logistics service in Vietnam such as outsourcing activities, logistics demand, logistics-related IT. The results may set a strategic assessment for company's logistics initiatives.

Demand of the logistics services

Traditional logistics activities including transportation, warehousing, customs clearance and forwarding are still the most outsourced activities. For those who do not outsource their logistics activities, 50 percent of respondents said they would outsource, 38 percent would consider outsourcing possibilities in the near future while 12 percent of respondents would not be willing to outsource logistics activities because they feared that it did not reduce costs. Furthermore, service quality of service provider was also an important concern make them reluctant to outsource their logistics activities. Respondents revealed that outsourcing logistics services contributed, on average, a decrease of 13 percent of logistics costs.

Collaboration

In order to improve the relationship between logistics service providers and their customers, both parties must work together on the common goals and objectives and set up an effective communication channel relating to planning, management, execution, and performance measurement. The majority of respondents indicated that an apparent benefit from the good relationship is logistics cost reduction and customer service improvement.

Technology

IT capability of service provider was still in the top three priorities upon customers' consideration. Most respondents paid more attention to the application of Warehouse Management System (WMS). Although respondents expected to learn Radio Frequency Identification (RFID) technology, its application was low. They revealed that RFID technology was not in their consideration in the near future.

Demand of logistics services

Users and non-users of logistics services

There are 92 percent of respondents outsourcing their logistics functions. As shown in the Figure 1, consumer packaged goods sector accounts for the highest outsourcing percentage.

Figure 1. Outsourcing percentage by sector and company type



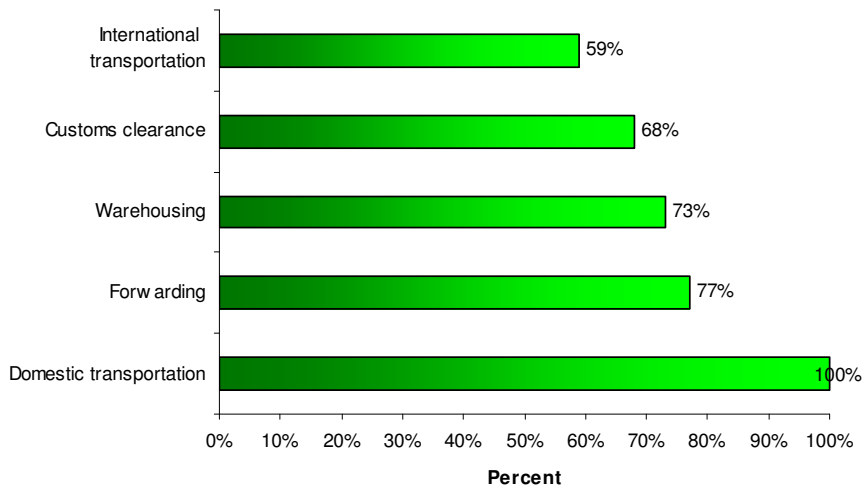
The companies who do not outsource logistics functions fall into customer packaged goods, consumer electronics, and seafood sector. Most respondents (not outsourcing) are state owned enterprises (only 1 company is foreign invested company).

Logistics activities outsourced

Top five logistics activities outsourced include domestic transportation (100% respondents), forwarding service, warehousing, customs clearance service, and international transportation (see Figure 2). The outsourcing pattern follows the international outsourcing trend according to the 12th annual survey third-party logistics study 2007¹. Domestic transportation requires big investment and good management such as trucking fleet investment, driver management, and fleet maintenance; therefore, all customers outsourced the activity to domestic trucking companies.

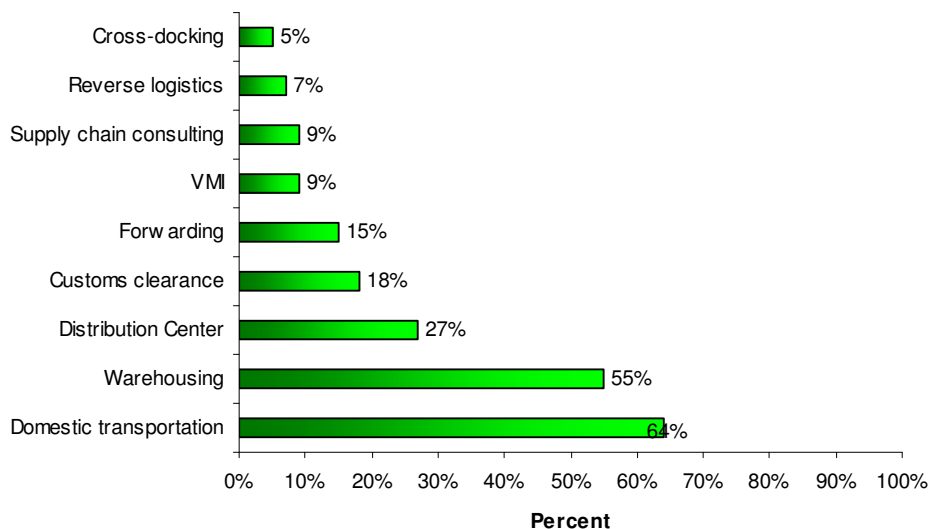
¹ Source: 12th Annual Third-Party Logistics Study 2007 (Capgemini, Georgia Institute of Technology, SAP, DHL)

Figure 2. Top five outsourcing logistics activities



The more complicated logistics activities such as order management, cross-docking, consolidation, payment management, etc. were not selected at the time of survey. Information relating to the activities may be sensitive and companies may not want to share related information to external parties. Moreover, only 3PLs with sound expertise and strong IT system have capabilities to handle the services. However, respondents were considering possibility of outsourcing several complicated activities like VMI, reverse logistics, cross-docking, supply chain consulting in the future (see Figure 3).

Figure 3. What logistics activities companies expect to continue outsourcing



Reasons for not using logistics activities

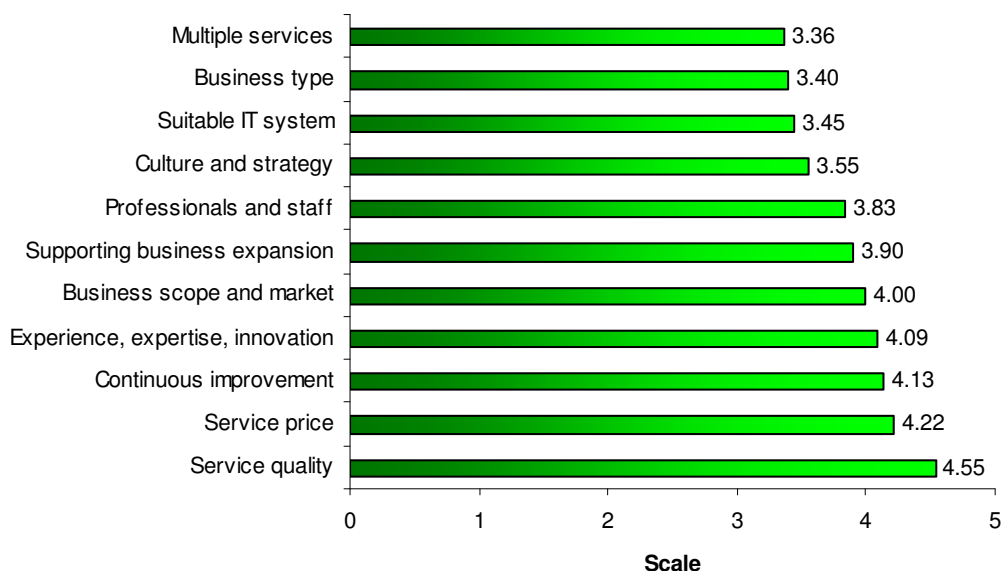
"No reducing costs" is the first reason why they did not outsource logistics activities (48%). The other reasons are "unable to control logistics activities" (32%) and "service quality of providers is not met" (20%). Among them, 50 percent of respondents planned to outsource logistics activities in the future. Most of them are consumer packaged goods companies. Thirty eight percent of respondents planned to consider logistics outsourcing while the rest (12%) said "No". The top reason identified is that the companies consider logistics a core competency.

Collaboration

Factors relating to selection of logistics service providers

Respondents rate 11 factors based on their importance² when select a logistics service provider. It is found that price and service quality were considered the most important factors (see Figure 4). This is not surprising as they are always set first when contracting for services. However, all of the factors are relatively important when customers have an overall evaluation on logistics service providers.

Figure 4. Factors considered when logistics service providers selected



² Scale: 5 is the most important factor, 1 is the least important factor

Benefits from the use of logistics services

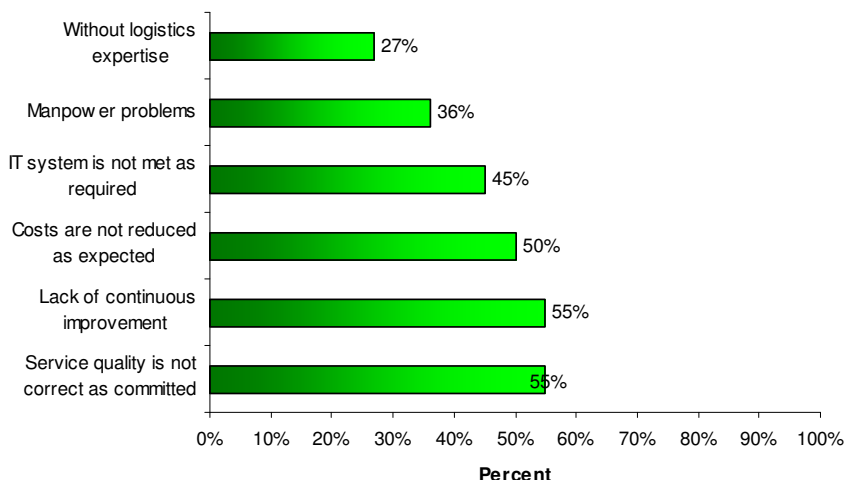
It showed that most respondents were satisfied with what logistics service provider brought about. The Table 1 below indicated an average 13 percent reduction in logistics costs, an average 11 percent reduction in total fixed assets, an average reduction in order cycle time of 6 days. The figures are a little bit less than that of world average (18 percent, 13 percent, 10~14 days, respectively).

Table 1. Results benefited from the use of logistics services

Sector	Logistics cost reduction (%)	Fixed asset reduction (%)	Order cycle length reduction (days)
Consumer packaged goods	13	15	7
Distribution/Retail	16	14	5
Automotive	10	11	3
Wood processing	10	9	9
Consumer electronics	15	8	8
Seafood	11	10	6
Average	13	11	6

Despite getting the certain benefits, the companies reported frustrating problems with logistics service providers as indicated in Figure 5. Stayed at the top of the list are the problems one would naturally expect – "service quality is not correct as committed" (55%), "lack of continuous improvement" (55%), and "costs are not reduced as expected" (50%).

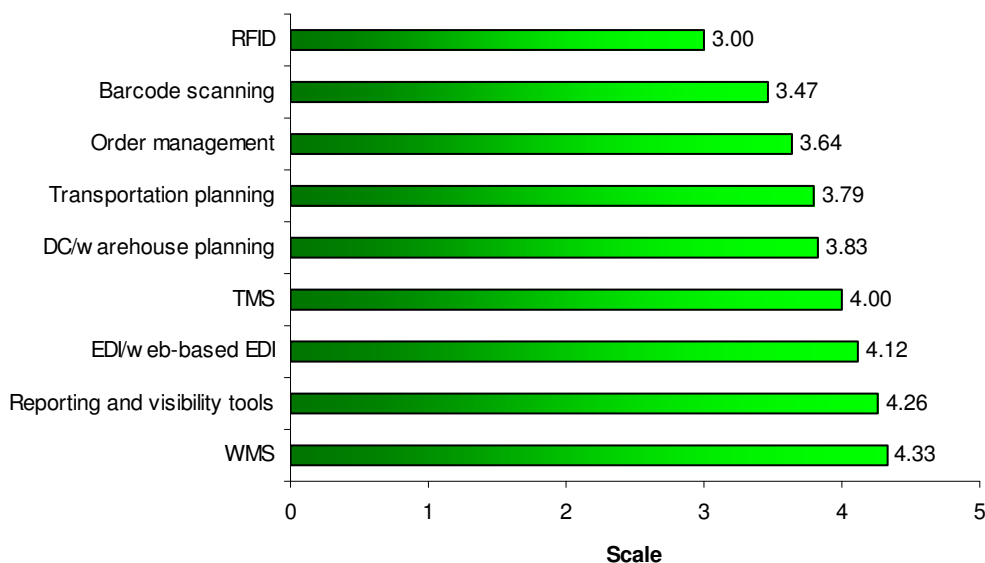
Figure 5. Existing problems experienced with logistics service providers



Technology

IT plays a very important role in logistics management and has close relationship with relative logistics activities. IT requirement and its application depend on specific demand and capabilities of logistics service providers. When asked about rating IT factors based on their importance³ expected from a service provider, respondents revealed that Warehouse Management System (WMS), reporting and visibility tools, and EDI/web-based EDI are the most expected technologies while advanced technologies like RFID, barcode scanning, and order management are the least expected technologies in customer's view. This finding is consistent with outsourcing logistics activities shown in the Figure 2.

Figure 6. IT expectation



Conclusion

The report highlights the perspectives of logistics service users, across major sectors in Vietnam. In summary, this report has evidenced:

- Outsourcing mainly exists in customer packaged goods, consumer electronics, and seafood sector.
- Traditional logistics activities such as transportation, warehousing, customs clearance and forwarding are the most outsourced activities. Possibility of

³ Scale: 5 is the most important factor, 1 is the least important factor

outsourcing complicated logistics activities obtains increasing attention from customers.

- Effectively cutting cost is the most important performance metric for logistics service providers to persuade customer to use their services. Price and service quality remain the first and foremost factors when contracting for services.
- IT systems which support the traditional logistics activities are more expected from service users.
- Outsourcing trend continues increasing in the future.

Through the above key findings, including outsourcing reasons, service provider selection, customer requirements, logistics-related IT, readers may adjust and improve their own company's logistics initiatives.

About SCM Corp.

SCM Corp is now widely known as a specialized consulting firm in Vietnam dedicated to assisting companies with supply chain strategy development, implementation, education and media. Our expert advice and collaborative approach help clients develop supply chain solutions which are strategic, practical, cost effective and focused on improving clients' satisfaction. For further inquiries, please send an e-mail to admin@scmvietnam.com



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SCM Corporation
Floor 2, Room 203, 141 Hai Ba Trung Street
District 3, Ho Chi Minh City
Vietnam

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